



FILE COPY

Office - Supreme Court, U. S.

FILED

OCT 14 1942

CHARLES ELMER WILLEY

CLERK

---

IN THE  
**SUPREME COURT OF THE UNITED STATES**

---

OCTOBER TERM, A. D. 1942.

---

No. 45.

---

**SOLA ELECTRIC COMPANY,**

*Petitioner,*

vs.

**JEFFERSON ELECTRIC COMPANY,**

*Respondent.*

---

**BRIEF FOR RESPONDENT.**

---

THOMAS H. SHERIDAN,

135 South LaSalle Street,  
Chicago, Illinois,

*Counsel for Respondent.*

---



## **INDEX.**

The True Question Presented .....	1
Summary of Argument .....	2
Argument .....	4
Conclusion .....	24

### **List of Authorities Cited.**

B. B. Chemical Co. <i>v.</i> Ellis, 314 U. S. 495.....	18
Bement <i>v.</i> National Harvester Co., 136 U. S. 70.....	18
Carbice Corporation <i>v.</i> American Patents Corp., 283 U. S. 27, 31 .....	18
Charter Gas Eng. Co. <i>v.</i> John Charter, 47 Ill. App. 36.....	23
Declaratory Judgment Act of June 14, 1934, 48 Stat. 955, as amended (28 U. S. C. 400) .....	25
Erie R. Co. <i>v.</i> Tompkins, 304 U. S. 64.....	4
Ethyl Gasolene Corp. <i>v.</i> United States, 309 U. S. 456.....	18
France Mfg. Co. <i>v.</i> Jefferson Electric Co., 106 F. (2d) 605 .....	3, 12
Havana Press Drill Co. <i>et al.</i> <i>v.</i> Ashurst <i>et al.</i> , 148 Ill. 115 .....	23
Hill <i>v.</i> Wooster, 132 U. S. 693.....	18
Kinsman <i>et al.</i> <i>v.</i> Parkhurst, 59 U. S. 289.....	13
Leitch Manufacturing Co. <i>v.</i> Barber Co., 302 U. S. 458.....	18
Morton Salt Co. <i>v.</i> G. S. Sappiger Co., 314 U. S. 488.....	18
Motion Picture Patents Co. <i>v.</i> Universal Film Mfg. Co., 243 U. S. 502 .....	18
Pharis <i>v.</i> Moline Plow Company, 158 Ill. App. 64.....	23
Rhodes <i>v.</i> Ashurst, 176 Ill. 351 .....	23
Standard Sanitary Mfg. Co. <i>v.</i> United States, 226 U. S. 20 .....	18
Swift <i>v.</i> Tyson, 16 Pet. 1 .....	22
United States <i>v.</i> General Electric Co., 272 U. S. 476.....	16, 18

United States v. Harvey Steel Company, 196 U. S. 310	13
United States v. The Masonite Corp., U. S. L. Ed. 1006	86
"Walker on Patents—Deller Edition," Vol. 2, p. 492	18
<i>et seq.</i>	43

## APPENDIX A.

Statute Involved	25
------------------	----

IN THE  
**SUPREME COURT OF THE UNITED STATES**

OCTOBER TERM, A. D. 1942.

---

No. 45.

---

**SOLA ELECTRIC COMPANY,**  
*Petitioner,*

vs.

**JEFFERSON ELECTRIC COMPANY,**  
*Respondent.*

---

BRIEF FOR RESPONDENT.

---

**THE TRUE QUESTION PRESENTED.**

We submit that the true and only question before this Court for decision in this controversy is this: Has the Petitioner the right to attack the validity of patent claims under which it is licensed in a proceeding to collect royalties allegedly due Respondent under such contract, the case at bar presented by the Bill and Answer being purely one sounding in contract and with no charge of infringement of such claims?

An ancillary question has been injected into the controversy which may be stated as follows: Is the estoppel to attack the validity of a patent under which







it is licensed, imposed upon a licensee, which the courts have repeatedly recognized, to be disregarded and nullified merely because the license contract between the parties includes a provision requiring Petitioner, as licensee, to maintain the same prices for the licensed product which it manufactures and sells as those charged to customers by Respondent, the licensor?

### SUMMARY OF ARGUMENT.

1. The proceeding instituted by Respondent was wholly one for the performance by Petitioner, a non-exclusive licensee, of the license contract between the parties, particularly to make the payments allegedly due on certain transformers charged to respond to certain claims of the patent under which petitioner is licensed. There is no element or aspect of patent infringement involved in the controversy. This is not a "patent case" but a contract case.

2. There is or has been no effort by Respondent to impose illegal price restrictions on the operations of Petitioner or anyone else, either by demanding royalties upon unpatented materials or the like or by seeking to restrain trade in unpatented devices, materials, or the like under an invalid patent. To the contrary, Respondent has merely sought to collect royalties on transformers responding to claims of the patent to Daley *et al.* 1,777,256 as provided in the license contract between the parties, and Respondent is fully entitled to rely upon the *prima facie* validity of the claims of that patent in so doing.

3. The effect of Respondent's conduct of the litigation against an infringer, France Manufacturing Co., was not such as to render any of the claims of the Daley *et al.* patent invalid as alleged by Petitioner.

Nor was the effect of the decision of the Sixth Circuit Court of Appeals in the *France* case\* such as to establish or indicate the invalidity of certain claims withdrawn from suit there, but, on the contrary, the effect of that decision was to stress the *prima facie* validity of such claims and the right of Petitioner to rely upon that *prima facie* validity.

4. The courts of this country have long recognized and applied the doctrine of licensee-estoppel to preclude challenge of the validity of patent claims by a licensee under such claims and very properly so. There is no authority cited by the Petitioner which rejects that doctrine of licensee-estoppel, properly applied.

5. There is no valid ground to justify withholding the application of the estoppel, which, we submit, is imposed upon Petitioner as a licensee to attack the validity of patent claims under which it is licensed. There is no public interest involved in this controversy. There are no equities here which favor Petitioner's contention. The license contract fully protects Petitioner against infringing competition, and there has been no averment by Petitioner of failure to proceed against infringers. In fact, the record shows that in suing the France Manufacturing Co., Respondent has fulfilled its obligation in that respect under the contract. Also, under the license contract Petitioner may cancel such license on reasonable notice and is additionally protected by that provision.

6. In likening the case at bar to a species of declaratory judgment proceeding, Petitioner ignores and disregards the fact that the only controversy between the parties which might possibly justify such a

---

\**France Mfg. Co. v. Jefferson Electric Co.*, 106 F. (2d) 605.

proceeding was that arising from Respondent's demand for payment of royalties allegedly due under the contract. There was no charge of infringement or threat to sue for infringement. So far as there was an actual controversy, it was presented to the lower courts for adjudication by the filing of the Bill of Complaint, and at most, if at all, the only declaratory judgment which Petitioner could properly have demanded was one decreeing it not liable for the payment of such royalties. Such a proceeding would have been superfluous, but might have been proper. That is not the proceeding which flowed from the filing of Petitioner's counterclaim asking to have the right to challenge the validity and thereby invalidate, if possible, certain claims of the patent under which it is licensed and is operating.

7. While we are in agreement with opposing counsel that there is no written statute, either Federal or State, which establishes this doctrine of licensee-estoppel, it is, however, clearly a part of the unwritten law of the State of Illinois by virtue of judicial decisions by the courts of that State, and since the parties are only in the federal courts because of diversity of citizenship, under the doctrine of *Erie R. Co. v. Tompkins*, 304 U. S. 64, that unwritten law of Illinois should apply in the disposition of this certiorari proceeding.

### **ARGUMENT.**

**The Bill of Complaint herein merely charges failure to pay royalties charged to be due by Petitioner and to compel compliance with the terms of the license contract running between the parties. Even the most cursory reading of the Bill of Complaint (Rec. p. 1, et**

seq.) makes clear that this suit was instituted by Respondent to compel Petitioner to account for royalties charged to be due upon certain transformers under the terms of a license granted to Petitioner by Respondent under two patents, only one of which is here involved, namely, the patent to Daley *et al.* No. 1,777,256, issued Sept. 30, 1930 (Exhibit A—Rec. p. 11 *et seq.*).

It is true additionally that Respondent is charging violation of the letter and spirit of the same agreement in other respects and is seeking to restrain such violations (Rec. pp. 4, 5), *but there is nothing which even remotely charges Petitioner with infringement of the Daley et al. patent.*

It thus appears that the controversy was originally wholly one between two contractors under their contract.

In addition to answering the Bill of Complaint and averring that the prior art or the state of the art precluded an interpretation of the claims charged to read upon and find response in the devices upon which admittedly Petitioner had not paid royalties, Petitioner sought to attack the validity of certain of those claims by a counterclaim pleading voluminous prior art for that purpose.

There is no question as to Petitioner's right to assert the prior art for the purpose of assisting the Court in defining the metes and bounds of the claims charged to read upon Petitioner's transformers, but we challenged Petitioner's right by counterclaim, or otherwise, to attack the validity of those claims, and moved to dismiss the counterclaim as presenting no proper cause of action. This motion was sustained by the District Court. From the decision of the District Court, Petitioner appealed to the United States Cir-



cuit Court of Appeals for the Seventh Circuit, which in due course affirmed the decision of the District Court in an opinion handed down by Circuit Judge Sparks.\* It is from that decision, Petitioner has asked for and obtained a Writ of Certiorari in this Court.

The issue presented by the Bill of Complaint and Answer herein is important because it makes clear the absence of any public interest since there is nothing of inherent illegality or immorality implicit in the license contract, and it is to be noted that Petitioner is expressly not seeking a cancellation or a nullification of its license contract, but is expressly seeking to continue to enjoy certain benefits under that contract.

**Respondent has not sought to impose illegal price restrictions upon the manufacture of Petitioner, but is merely seeking primarily to collect royalties it believes to be due it under claims of the Daley et al. patent, adjudicated as valid or prima facie valid.** As we have pointed out above, the issue presented by the Bill of Complaint and Answer herein was primarily the response or non-response of certain transformers manufactured by Petitioner to certain claims of the Daley et al. patent. These claims were specified in Respondent's Bill of Particulars as 1, 2, 4, 11, 12, 13, 14, 15, 17, 19 and 21, of Letters Patent No. 1,777,256 (Rec. pp. 31, 32).

Of those claims, 14 and 19 were adjudged valid in the District Court of Ohio, and that holding was affirmed by the Sixth Circuit Court of Appeals speaking through Judge Hamilton (reported at 186 F. (2d) 605. Therefore, we see that Respondent is not only charging failure to pay royalties under claims which were not adjudicated in the *France Manufacturing* case

\* 125 F. (2d) 322.

which was a suit for an infringement, but also under claims adjudged valid in that litigation. Incidentally, Petitioner in its counterclaim is not attacking the validity of those adjudicated claims 14 and 19. There is no charge, and can properly be no charge in Petitioner's counterclaim that Respondent is seeking in the case at bar to extend its patent to cover commodities, devices, or the like which are not covered by the claims of its patent, nor is it pleaded that Respondent is seeking to impose restrictions on the sale or resale of Petitioner's transformers, in violation of the Federal Statutes. The gist of Petitioner's contention as to its right to attack the validity of the claims charged to read upon its devices *other than claims 14 and 19 of the Daley et al. patent*, is that those claims were deliberately withdrawn from suit in the case against France Manufacturing Company in order to avoid adjudication of invalidity which would have freed petitioner of the obligation to pay royalties on devices responding only to those claims, and that the decision of the Sixth Circuit Court of Appeals establishes the invalidity of those claims.

Relving upon those fallacious premises, Petitioner then turns to the price maintenance provision of the license agreement to inject a mythical "public interest" which, it says, justifies this Court in rejecting the doctrine of licensee-estoppel sustained by the courts of this country for so long, and in permitting Petitioner to attack the validity of those claims involved in the litigation, not heretofore judicially held valid.

Below, we shall point out the fallacy in the premises upon which Petitioner bases its contentions, particularly how the effect of the decision of the Sixth Circuit Court of Appeals in the *France Manufacturing Company* case instead of indicating the invalidity of

the claims not there adjudicated, quite to the contrary pointed to their *prima facie* validity and the right of Respondent here to rely upon that *prima facie* validity.

As we shall also point out below, this Court has judicially recognized the right of a patentee or patent owner to insist that a licensee maintain prices so long as that licensee is operating within the domain of the patent under which it is licensed.

With the recognition of that right by this court and the inferior courts of the land, and with recognition of the estoppel imposed upon patent licensees to attack the validity of a patent or patents under which they are licensed, the only issue properly before the court in the case at bar, is the response or non-response of the defendant's transformers to the claims charged to read upon them, with due recognition of any limitations which may be imposed upon such claims by the prior art.

No admission or finding of invalidity of any of the claims of the Daley et al. patent is to be derived from Respondent's conduct or the decision of the Sixth Circuit Court of Appeals in the France case. On the contrary, that decision stressed the *prima facie* validity of the claims not expressly adjudicated therein. It is true that Respondent originally asserted a number of claims against the France Manufacturing Company (charging it with infringement of those claims) which were withdrawn before trial of the case. What may have motivated counsel for Respondent in that litigation to withdraw those claims, we do not know, but there is no burden imposed upon Respondent by the license contract or otherwise, despite the assertions of Petitioner, to assert any particular claims of its patent or patents. Incidentally, it is quite common for

counsel to select only typical claims from a large number contained in a patent sued upon. In fact, the courts have encouraged and probably should encourage a simplification of patent litigation by limiting the claims in suit to such as may be typical and thereby lighten the burden upon the trial and appellate courts.

The contract between the parties contains no provision that Respondent shall sue upon and assert against an infringer, each and every claim of its patent or patents which may reasonably be deemed to read upon the accused devices. The contract merely contains the provision that:

“(10) The Jefferson Company agrees that it will bring and diligently prosecute such suits for infringement of the patents under which this license is granted as may reasonably be necessary for enforcing those patents and preventing unlicensed competition” (Rec. p. 8).

Jefferson fully complied with this requirement when it instituted suit against the France Company and the effect of that suit, as the decision in the *France* case makes clear and as may be gathered from Petitioner's brief and the petition and brief of the France Manufacturing Company seeking to intervene in this case as *Amicus Curiae*, was to suppress the infringement of the France Company, which obviously was the object of the contract.

Certainly neither Answer nor Counterclaim filed in the case at bar by Petitioner avers or pleads any failure of Respondent to proceed against infringing competitors, and it is significant that there is no assertion or contention either by pleading or in brief that Petitioner ever charged Respondent with failure fully to comply with the spirit as well as the letter of the license contract, until this proceeding was instituted



against Petitioner to collect royalties allegedly due and unpaid under the contract.

We reiterate that there is not one word in the license contract which obligates Respondent to assert each and every claim which may reasonably be charged to infringe, against an infringer.

Petitioner, it is true, seeks to supply by implication what is lacking in words. It is contended that because the license contract contains the following provision:

“ . . . and with respect to any claims *held invalid* or awarded to another, the licensee shall be relieved from including in its reports hereunder transformers shipped, . . . covered *only* by such claims. . . .” (Emphasis ours; Rec. p. 9, Par. 11b.)

there is an implied obligation upon Respondent to inject each and every claim into an infringement suit in order that Petitioner might obtain an adjudication of the invalidity of such claims, and possibly obtain their elimination from the license contract.

Certainly it would be a unique and unjust doctrine of law or interpretation which would impose upon a licensor any such obligation, *in the absence of express language to that effect*. And here there is not one word which establishes any such intent on the part of the contracting parties. Contracts have been judicially reformed, it is true, but we know of no instance where that was done without definite and convincing proof that such reformation was necessary to effectuate the original intent and desire of *both* parties.

In the case at bar, we submit, Respondent was perfectly right in relying upon the *prima facie* validity of the claims of its patent until an adverse decision of the courts should rebut that validity.

As we shall point out below, if failure to assert claims might result in infringing competition of consequence, Petitioner has the right under the license contract to demand that suit be instituted to suppress competition. Additionally it has the right to cancel this contract without cause upon thirty days written notice (Rec. p. 8, Par. 11).

Counsel for Petitioner with great facility develops what it says were Respondent's motives in withdrawing certain claims from the *France Company* case. We say that any such conclusions and assertions as appear in Petitioner's brief (p. 32 *et seq.*) are wholly unwarranted and fallacious.

The contract should govern as between the parties. As we have pointed out, Respondent has fully complied with the obligations of the contract.

Petitioner in its brief repeatedly refers to the claims withdrawn from suit in the *France* case as "broad claims" and those adjudicated as valid as "narrow claims." Whether or not this classification be correct is unimportant in this proceeding.

Petitioner also by a labored analysis and comparison of claim 13 with claim 14 and with reference to the decision of the Sixth Circuit Court of Appeals in the *France* case seeks to establish the invalidity of claim 13 and thereby that of the other unadjudicated claims.

It is true that the Court stated that balanced transformers were old, and it is true that claim 13 is directed to a balanced transformer, *but the Sixth Circuit Court of Appeals did not say or hold that the balanced transformer of claim 13 is old in the art. Nor does it follow from the true holding of the court that such is the case.*

It is not to be believed that if the Sixth Circuit Court had thought the prior art before it invalidated claim 13, for example, it would have said:

"A consideration of the evidence makes applicable the rule that an inspection of the patent by the patentees or their assignee would not have disclosed they had claimed more than they had invented or described." (106 F. (2d) 611.)

We note also that in the *France* case the defendant sought to convince the Sixth Circuit Court of Appeals that Respondent's conduct in withdrawing certain claims from issue was an admission that those claims were invalid.

The Court of Appeals quickly and thoroughly rejected that contention.

"... but the attorney for appellee in the case at bar expressly declined to abandon the claims not declared on.

"[12] In our opinion this was not a binding admission that the claims not in suit were invalid. *Union Trust Company v. Southern Sawmills & Lumber Company*, 4 Cir., 166 F. 193; *L. P. Larson, Jr. Company v. Wm. Wrigley, Jr. Company*, 7 Cir., 253 F. 914." (106 F. 2d 610, 611.)

It is noted in passing that the defendant in the *France* case petitioned this Court for Writ of Certiorari to the Sixth Circuit Court of Appeals on the ground that the withdrawn claims were invalid and that Respondent's failure to disclaim as to those claims rendered its whole patent invalid. The same line of argument and reasoning was advanced in that petition for certiorari. *That petition was denied by this Court.\**

The doctrine of licensee estoppel is a long established one which has been uniformly recognized by

\* 309 U. S. 657.

the courts of this country. At least as early as the decision in *Kinsman et al. v. Parkhurst*, 59 U. S. 289, this Court held as follows:

"The principal objection made by the appellants to the decree of the court below is that Parkhurst was not the original and first inventor of the thing patented. We are not satisfied that this is made out. But we have not found it necessary to come to a decided opinion upon this point, because we are all of opinion that, under the agreement of the ninth of February, 1846, the invalidity of the patent would not afford a bar to the complainant's right to an account. Having actually received profits from sales of the patented machine, which profits the defendants do not show have been or are in any way liable to be affected by the invalidity of the patent, its validity is immaterial. Moreover, we think the defendants are estopped from alleging that invalidity. They have made and sold these machines under the complainant's title and for his account; and they can no more be allowed to deny that title and retain the profits to their own use, than an agent, who has collected a debt for his principal, can insist on keeping the money, upon an allegation that the debt was not justly due." (l.c. 292, 293.)

That doctrine has been applied in numerous suits between owners of patents and those operating by license or otherwise under such patents. It seems unnecessary to burden the Court with an extended citation of cases, but we do point to a collation of many in "Walker on Patents—Deller Edition," Vol. 2, p. 1492 *et seq.*

A leading case frequently cited on this point and on all-fours with the case at bar in this respect was that of *United States v. Harvey Steel Company*, reported at 196 U. S. 310. From the opinion handed down by Mr.

Justice Holmes speaking for this Court, we quote the following:\*

"Finally, it was agreed that 'in case it should at any time be judicially decided that the party of the first part is not legally entitled, under the letters patent aforesaid, to own and control the exclusive right to the use and employment of said process, and the decrementally hardened armor plates produced thereunder, as set forth in the letters patent aforesaid, then the payment of royalty under the terms of this agreement shall cease, and all sums of money due the party of the first part from the party of the second part, as royalty for the use and employment of said process, and armor plates, as aforesaid, shall become the property of the party of the second part.' (l.c. 315.)

"It never has been judicially decided that the claimant has not the rights mentioned in the last quoted clause of the contract. The United States asked additional findings, which, it now, contends, would establish that the patent was invalid, or, if valid, valid only if restricted. . . . (l.c. 315.)"

"The main question is whether, under the last quoted clause of the contract, the United States can set up the invalidity of the patent in this suit. It is argued also that the United States ought to have been allowed to show that it had not used the patent, properly construed, although it is not denied that it has used the process communicated to it and known in common speech as the Harvey process. (l.c. 315.)"

"The words of the condition on which the payment of royalty was to cease, taken in their natural and literal sense, do not mean what the Government says. A plea of that condition, to satisfy the words 'in case it should at any time be judi-

---

\* The case was one instituted by the Harvey Steel Company against the United States under a license contract to recover royalties as is sought by Respondent in the case at bar.



cially decided' ~~that~~ the patent was bad, would have to be that it had been decided to that effect. It would not be enough to say that the defendant thought the patent bad, *and would like to have the court decide so now*. We see no reason to depart from the literal meaning of the words. (Emphasis ours—l.c. 316.)

"The truth seems to be that the proviso is a more or less well-known and conventional one in licenses, *Charter Gas Engine Co. v. Charter*, 47 Ill. App. 36, 51, not a special contrivance for the special case, and that fact alone is enough to invalidate attempts to twist the meaning of the words to the interest of either side. The proviso was inserted, no doubt, on the assumption that a licensee, when sued for royalties, is estopped to deny the validity of the patent which he has been using, and to give him the benefit of litigation by or against third persons, notwithstanding that rule." (l.c. 317.)

There as here the licensee was protected by the provision that an adjudication of invalidity of claims in the patent under which it was licensed would free that licensee from its obligations under the contract and would put it in position to challenge the validity of the patent *to that extent* if licensor made any effort after such an adverse adjudication to continue to collect royalties.

We shall not cumber this brief with an extended discussion of the authorities relied upon by Petitioner at this point, but we do insist that in no one of the cases cited by Petitioner was there any rejection of the doctrine of licensee-estoppel where plaintiff was merely seeking to collect royalties under a license contract with no effort to extend the monopoly of its patent beyond the metes and bounds of the claims of that patent. In short, there is no authority cited or relied upon by Petitioner which is in conflict with the deci-

sion of this court in *United States v. Harvey Steel Company, supra*.

In soliciting and accepting a license under the Daley *et al.* patent, Petitioner recognized and accepted the *prima facie* validity of all the claims of that patent until and unless they might be formally adjudicated invalid.

There is no public interest properly involved in this controversy, and there are no equities in this controversy which would justify the Court in disregarding the estoppel imposed upon Petitioner to attack the validity of the claims under which it is licensed. It is strenuously argued (Pet. Br. p. 15 *et seq.*, p. 28 *et seq.*) that the inclusion of a price maintenance provision (Rec. p. 7, Par. 5) necessarily involves the interest of the public in this proceeding and warrants the nullification of the estoppel to challenge the validity of the patent under which it is licensed which might otherwise restrain Respondent from so doing. It is not asserted that Respondent is endeavoring to collect royalties or suppress competition in any device not covered by or responsive to the claims of the Daley *et al.* patent.

Let us point out at the outset that the provision referred to above merely required that Petitioner, as a licensee, would not undersell Respondent in the sale of the licensed devices. There is nothing inequitable in such a provision as between the parties, because in opening its monopoly to Petitioner and permitting competition by Petitioner with the patented devices, Respondent was encouraging competition, and it should not be faced with destructive price cutting competition as to devices on which it enjoyed a legitimate monopoly. As Mr. Chief Justice Taft said speaking for this Court in *United States v. General Electric Co.*, 272 U. S. 476:

"When the patentee licenses another to make and vend, and retains the right to continue to make and vend on his own account, the price at which his licensee will sell will necessarily affect the price at which he can sell his own patented goods. It would seem entirely reasonable that he should say to the licensee, 'Yes, you may make and sell articles under my patent, but not so as to destroy the profit that I wish to obtain by making them and selling them myself.' " (L. c. 490.)

Petitioner contends (Pet. Br. p. 28 *et seq.*) that the public is interested immediately in a license under a patent which seeks to control unpatented materials or devices, etc. That may be true, but that does not warrant Petitioner as a licensee, not as a member of the public, in questioning the validity of the claims under which it is licensed in the absence of an adjudication establishing their invalidity. If an effort were being made by Respondent to maintain prices under an invalid patent, the public would have a perfect right to attack the arrangement entered into by Petitioner and Respondent; but that is not the situation here, nor is the public, as we reiterate, a party to this controversy.

*Petitioner is not being sued as a member of the Public, but as a co-contractor with Respondent under the contract.*

That is quite different from a proceeding where, as in the *France* case, the defendant was charged with infringement and was fully entitled to rely upon all defenses available to the public generally, including the right to contest the validity of the patent under which it was sued. Likewise, where the United States proceeds against a patent owner charging restraint of trade by illegal use of its patent, the public interest is clearly involved.

The authorities cited by Petitioner are of those two



categories, namely, where a defendant is sued for infringement or where the government is acting on behalf of the public to protect the public interest.

In the former class are such cases as *Standard Sanitary Mfg. Co. v. United States*, 226 U. S. 20, and *United States v. The Masonite Corp.*, ..... U. S. ....; 86 L. Ed. 1006.

In the latter category are such cases as the *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U. S. 502, *Carbice Corporation v. American Patents Corp.*, 283 U. S. 27, 31; *Leitch Manufacturing Co. v. Barber Co.*, 302 U. S. 458, *Morton Salt Co. v. G. S. Suppiger Co.*, 314 U. S. 488, *B. B. Chemical Co. v. Ellis*, 314 U. S. 495, *Hill v. Wooster*, 132 U. S. 693, and others relied upon by Petitioner.

Petitioner admits (Pét. Br. p. 17) that price fixing in patent licenses is permitted in some cases at least, citing the leading cases of *Bement v. National Harvester Co.*, 186 U. S. 70, and the more recent case of *United States v. General Electric Co. et al.*, 272 U. S. 476.

We do not find in the very recent, unanimous decision of this Court in the case of *Ethyl Gasoline Corp. v. United States*, in which the opinion was delivered by Mr. Justice Stone, any pronouncement which would conflict with the decisions of the two cases cited just above. Although there is no specific mention in the latter decision of price fixing or price maintenance, this right of a patentee would seem clearly to come within this court's dictum which we quote as follows:

"The patent law confers on the patentee a limited monopoly, the right or power to exclude all others from manufacturing, using, or selling his invention. . . . The extent of that right is limited by the definition of his invention, as its bound-

aries are marked by the specifications and claims of the patent. *Motion Picture Patents Co. v. Universal Film Co.*, 243 U. S. 502, 510. He may grant licenses to make, use or vend, restricted in point of space or time, or with any other restriction upon the exercise of the granted privilege, save only that by attaching a condition to his license he may not enlarge his monopoly and thus acquire some other which the statute and the patent together did not give." (309 U. S. 436, 456.)

There has been no effort made by Respondent to extend its monopoly by departing from the proper scope of the claims of the Daley *et al.* patent. There has been no effort to exact tribute or impose restrictions upon the manufacture or sale of unpatented commodities, materials, or the like by assertion of the Daley *et al.* patent. There has been no effort made to control or impose limitations upon the resale of defendant's product. In short, Respondent is merely seeking to collect royalties which it contends are due it from Petitioner, because certain devices manufactured by Petitioner are believed to respond to claims of the Daley *et al.* patent under which Petitioner is licensed.

We reiterate there is nothing to be found in the decisions of the federal courts or in the statutes of the United States which precludes that effort by Petitioner, and we further reiterate that there is no interest of the public involved in this controversy.

As we have pointed out above, Petitioner, being unable to find any violation of Respondent's obligation to protect Petitioner in its licensed manufacture under the Daley *et al.* patent, has resorted to the fiction that there is an implied obligation to assert each and every claim which might conceivably read upon an infringing device in a proceeding against an infringer. This, it is said, flows from the contractual provision that in

the event of an *adjudication* of invalidity of claims of the patent which are the only ones finding response in the devices manufactured by Petitioner, Petitioner is relieved from further payment of royalty on such devices. And it is further said that the claims withdrawn from suit in the *France* case would have been held invalid and Petitioner would have been freed from any payment of royalties on the devices here involved. We have fully discussed the vice in that argument, above. The fact is that Respondent fully discharged its obligation by suing the France Manufacturing Company, and the effect of that suit was to eliminate infringing competition by that defendant.

In line with that same contention, it is intimated that there has been an eviction of Petitioner from its enjoyment of the license contract. This is certainly a desperate effort by fallacious assertion to enable Petitioner to escape the estoppel which, we submit, is properly imposed upon it to challenge the validity of the *Daley et al.* patent.

There has been no true eviction and none has been pleaded in this controversy. It cannot be honestly argued that Petitioner is meeting competition from infringing devices which would be essential to an eviction.

When the claim of eviction is properly weighed, it will be readily seen how unfounded and how unwarranted it is.

We point out again that should infringing competition of substance arise, the contract between the parties permits Petitioner to demand suit to restrain such competition, and again, as we have pointed out, should conditions, commercial or otherwise, render a continuance of operations by Petitioner under the contract unprofitable or undesirable, Petitioner has the right to

cancel and be free of the contract on thirty days' notice (Rec. p. 8, Par. 11). Since so far as the pleadings show, Petitioner is enjoying the protection of the Daley *et al.* patent and is not suffering from infringing competition, it should be compelled to observe and comply with the obligations of the contract, which obligations constitute a consideration for the grant of its license. The lower court clearly held with Respondent on these points and aptly summarized them in its decision\* sustaining the dismissal of Petitioner's counterclaim by the District Court.

Petitioner, as a licensee, would like to emasculate the patent under which it is licensed by attacking the validity of certain of the claims thereof in order to escape payment on devices adopted after it obtained the license, but at the same time continue to operate as a licensee under those claims which have been adjudged valid. It would be a unique and inequitable doctrine which would permit and encourage any such conduct.

**Petitioner can derive no support from the Declaratory Judgment Act.** In Appendix A we quote the pertinent portion of the Declaratory Judgment Act. The very first line of that act emphasizes that "actual controversy" must exist between the parties before such a proceeding can be instituted. In likening its Counterclaim to a declaratory judgment proceeding, Petitioner is deliberately or otherwise disregarding the facts in the case at bar. If there were an "actual controversy" between the parties, it was solely one of failure to comply with the terms of the license contract, particularly the payment of royalties charged, to be due under that contract. *There is not the slightest intimation, and there cannot*

---

\* 125 F. (2d) 324, Par. 3 *et seq.*

be, that Respondent has charged or is charging Petitioner with infringement of the Daley et al. patent. Therefore, there is no controversy between the parties with respect to any issue of infringement, and the sole controversy is one of contract, which is before the lower courts, at least by Bill and Answer, in the case at bar. We submit that if any declaratory judgment proceeding were available to Petitioner against Respondent, it would be one seeking to adjudicate its obligation to pay royalties on said transformers charged to be covered by the Daley et al. patent, and such a proceeding would merely be redundant in view of the filing of Respondent's Bill herein.

**The Doctrine of Erie Railroad Co. v. Tompkins does appear to apply to that phase of this controversy which is before this Court by certiorari.** As we understand the decision of this Court in *Erie v. Tompkins*, it held that the Court's decision in an early case of *Swift v. Tyson*, 16 Pet. 1, was erroneous and that the Federal courts, in dealing with a non-federal question, should not only be bound by the written law of the State in which the action might otherwise be brought, but also by the unwritten law of that State, established by decisions of the State courts.

Petitioner here admits that:

“... since Petitioner has its place of business at Chicago, Illinois, and that of Respondent is located at Bellwood, Illinois (R. pp. 1, 5), it may be safely assumed, and will not be disputed, that the contract was executed in the State of Illinois, and that Illinois is the *locus contractus*” (Pet. B. p. 40).

It is also true that the parties are incorporated respectively in the State of Delaware and the State of Illinois (Rec. pp. 1, 5) so that it is clear that this proceeding would not be before the federal court save for



diversity of citizenship, and, as in *Erie v. Tompkins*, the unwritten law of the State of Illinois should control.

We point to several cases decided by the Illinois courts in which the doctrine of licensee-estoppel was recognized and applied. In each case licensee was precluded under that doctrine from challenging the validity of a patent or patents under which it is licensed.

*Havana Press Drill Co. et al. v. Ashurst et al.*, 148 Ill. 115.

*Rhodes v. Ashurst*, 176 Ill. 351.

*Charter Gas Eng. Co. v. John Charter*, 47 Ill. App. 36 (1892).

*Pharis v. Moline Plow Company*, 158 Ill. App. 64.

Petitioner seeks by constant reiteration to inject a federal question into the case at bar (*Pet. Br. p. 43 et seq.*), but the controversy being entirely one originating under a contract between the parties, as we have repeatedly said, is not one involving the patent laws or any other federal question. "Walker on Patents—Deller Edition," Vol. 3, 1603, succinctly states the fact and collates a large number of pertinent decisions recognizing that fact.

"Actions brought to enforce contracts between private parties, relevant to patent rights, are not actions arising under the patent laws of the United States of which the federal courts have exclusive jurisdiction, and therefore they may properly be brought in State courts."

## CONCLUSION.

It is respectfully submitted that the true and real issue between the parties is one of compliance or non-compliance by Petitioner with its contractual obligations. There is no federal question involved, nor are the rights of the public nor any public interest involved.

There has been nothing either in the conduct of Respondent or in the adjudication of the Sixth Circuit Court of Appeals in the *France* case which in any way impairs the *prima facie* validity of any of the claims of the Daley *et al.* patent under which Petitioner is licensed.

If it should be judicially established by this court that a licensee under the patent providing for maintenance of price of the licensed product is freed of any estoppel which would otherwise restrain it from attacking the validity of the patent under which it is licensed, the effect of such a decision would be, we submit, greatly to discourage if not to inhibit the grant of any such licenses and thereby to eliminate competition which might otherwise arise.

Respectfully submitted,

THOMAS H. SHERIDAN,

135 So. La Salle Street,

Chicago, Illinois,

*Counsel for Respondent.*

**APPENDIX A.****Statute Involved.**

The Declaratory Judgment Act, of June 14, 1934, 48 Stat. 955, as amended (28 U. S. C. 400):

“(1) In cases of actual controversy except with respect to Federal taxes the courts of the United States shall have power upon petition, declaration, complaint, or other appropriate pleadings to declare rights and other legal relations of any interested party petitioning for such declaration, whether or not further relief is or could be prayed, and such declaration shall have the force and effect of a final judgment or decree and be reviewable as such.”





# SUPREME COURT OF THE UNITED STATES.

No. 45.—OCTOBER TERM, 1942.

Sola Electric Company, Petitioner,	{	On Writ of Certiorari to the United States Circuit Court of Appeals for the Seventh Circuit.
vs.		
Jefferson Electric Company.		

[December 7, 1942.]

Mr. Chief Justice STONE delivered the opinion of the Court.

The question for our decision is whether a patent licensee, by virtue of his license agreement, is estopped to challenge a price-fixing clause in the agreement by showing that the patent is invalid, and that the price restriction is accordingly unlawful because not protected by the patent monopoly.

Respondent brought the present suit in the District Court for the Northern District of Illinois, asserting diversity of citizenship, and alleging that it was the owner of Patent No. 1777256 for improvements in an electrical transformer; that it had entered into a license contract granting petitioner a non-exclusive license to manufacture and sell the patented transformers throughout the United States, its territories, dependencies and possessions, on payment of a stipulated royalty upon each transformer so manufactured and sold. The contract provided that the license was granted on condition that the "prices, terms, and conditions of sale, for use or sale" throughout the licensed territory should not be more favorable to petitioner's customers than those prescribed from time to time by respondent for its own sales and those of its other licensees. Respondent sought recovery of unpaid royalties and also an injunction restraining further sales except in conformity to the terms of the license agreement.

Petitioner by its answer admitted that it had manufactured two types of transformers, one covered by certain narrow claims of the patent, claims 8, 14 and 19, the validity of which it does not challenge, the other alleged to be covered by certain broader claims. Petitioner also filed a counterclaim alleging that the broad claims are invalid for want of novelty, as it asserted had

been recognized in the Sixth Circuit in *France Mfg. Co. v. Jefferson Electric Co.*, 106 F. 2d 605; and that respondent by reason of the price control provisions of the licensing contract and the invalidity of the broad claims was not entitled to recover royalties upon those transformers covered only by the broad claims. Petitioner accordingly prayed a declaratory judgment that most of the claims except 8, 14 and 19, are invalid, and for other relief.

The Circuit Court of Appeals for the Seventh Circuit affirmed the district court's order dismissing the counterclaim, 125 F. 2d 322, ruling that petitioner, having accepted a license under the patent, was estopped to deny its validity. And, treating the patent as valid, it held that the stipulation for control of the sales price of the patented articles manufactured by the licensee was a lawful exercise of the patent monopoly. We granted certiorari, 316 U. S. 652; the question being of importance to the administration of the patent laws and the Sherman Anti-Trust Act.

The circuit court of appeals, in holding that petitioner as a licensee was estopped to challenge the validity of the patent, did not say whether it considered that it was applying a rule of federal or of state law, and it cited no decisions of either the federal or the Illinois courts. Where no price-fixing stipulation was involved in the license contract, this rule of estoppel, which was not questioned by counsel, was applied without discussion in *United States v. Harvey Steel Co.*, 196 U. S. 310; cf. *Kinsman v. Parkhurst*, 18 How. 289. We need not decide whether in such a case the rule is one of local law, cf. *Dale Tile Mfg. Co. v. Hyatt*, 125 U. S. 46, 53-54, or whether, if it be regarded as a rule of federal law because the construction and application of the patent laws are involved, it was rightly applied in *United States v. Harvey Steel Co.*, *supra*. For here a different question is presented—whether the doctrine of estoppel as invoked below is so in conflict with the Sherman Act's prohibition of price-fixing that this Court may resolve the question even though its conclusion be contrary to that of a state court.

The present license contract contemplates and requires that petitioner, on sales of the licensed transformers throughout the United States, shall conform to the prices fixed by respondent for the sale of competing patented articles by other licensees and by respondent. Such a restriction on the price of articles entering interstate commerce is a violation of the Sherman Act.

have only as it is within the protection of a lawfully granted patent monopoly. See *United States v. Univis Lens Co.*, 316 U. S. 241, 250, and cases cited; *United States v. Masonite Corp.*, 316 U. S. 265, 275-77. Agreements fixing the competitive sales price of articles moving interstate, not within the protection of a patent, are unlawful because prohibited by the Sherman Act.

It is familiar doctrine that the prohibition of a federal statute may not be set at naught, or its benefits denied, by state statutes or state common law rules. In such a case our decision is not controlled by *Erie Railroad v. Tompkins*, 304 U. S. 64. There we followed state law because it was the law to be applied in the federal courts. But the doctrine of that case is inapplicable to those areas of judicial decision within which the policy of the law is so dominated by the sweep of federal statutes that legal relations which they affect must be deemed governed by federal law having its source in those statutes, rather than by local law. *Royal Indemnity Co. v. United States*, 313 U. S. 289, 296; *Prudence Corp. v. Geist*, 316 U. S. 89, 95; *Board of Comm'rs v. United States*, 308 U. S. 343, 349-50; cf. *O'Brien v. Western Union Telegraph Co.*, 113 F. 2d 539, 541. When a federal statute condemns an act as unlawful the extent and nature of the legal consequences of the condemnation, though left by the statute to judicial determination, are nevertheless federal questions, the answers to which are to be derived from the statute and the federal policy which it has adopted. To the federal statute and policy, conflicting state law and policy must yield. Constitution, Art. VI, cl. 2; *Awotin v. Atlas Exchange Bank*, 295 U. S. 209; *Dietrick v. Greaney*, 309 U. S. 190, 200-01.

The federal courts have been consistent in holding that local rules of estoppel will not be permitted to thwart the purposes of statutes of the United States. See, in the case of federal statutes governing interstate freight rates, *Pittsburgh, etc. Ry. Co. v. Fink*, 250 U. S. 577, 582-83; *Chesapeake & Ohio Ry. v. Martin*, 283 U. S. 209, 220-23; cf. *Atchison & Topeka Ry. v. Harold*, 241 U. S. 371; and federal statutes affecting national banks, *Awotin v. Atlas Exchange Bank*, *supra*; *Dietrick v. Greaney*, *supra*.

A state by applying its own law of specific performance may not compel the performance of a contract contemplating violation of the federal law, *Anderson v. Carkins*, 135 U. S. 483. Similarly this Court has declared that anyone sued upon a con-

tract may set up as a defense that it is in violation of the Sherman Act. *Bement v. National Harrow Co.*, 186 U. S. 70, 88. And it has proceeded on the assumption that whether the parties to an agreement in violation of the Act are *in pari delicto* is a question of federal, not state, law. *Harriman v. Northern Securities Co.*, 197 U. S. 244; *Eastman Co. v. Southern Photo Co.*, 273 U. S. 359, 376-78. It decided in *Continental Wall Paper Co. v. Voight & Sons Co.*, 212 U. S. 227, that a vendee of goods purchased from an illegal combination in pursuance of an illegal agreement, both in violation of the Sherman Act, can plead the illegality in defense to a suit for the purchase price. This decision went much further than it is necessary to go here to conclude that petitioner may assert the illegality of the price-fixing agreement and may offer any competent evidence to establish its illegality, including proof of the invalidity of the patent.

Local rules of estoppel which would fasten upon the public as well as the petitioner the burden of an agreement in violation of the Sherman Act must yield to the Act's declaration that such agreements are unlawful, and to the public policy of the Act which in the public interest precludes the enforcement of such unlawful agreements. Cf. *Morton Salt Co. v. Suppiger Co.*, 314 U. S. 488, 492-93.

*Reversed.*

A true copy.

Test:

*Clerk, Supreme Court, U. S.*



